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TAGS: [PARM](#) [ETTC](#) [PREL](#) [MNUC](#) [IR](#) [AE](#)
SUBJECT: POSSIBLE UNSCR 1737 (IRAN) ECONOMIC IMPACT ON UAE

Classified By: Ambassador Michele J. Sison for reasons
1.4 (b), (d), and (h).

¶1. (S/NF) Summary: Iran is one of the UAE's major trading partners, taking about 11 percent of the UAE's 2005 non-oil exports. Implementation of UNSCR 1737 is likely, therefore, to have some impact on the UAE trade. Thirty four percent of the UAE's exports to Iran fall into the category of machinery/electrical, which sets a probable upper bound on the exports that could be affected by the sanctions, but this figure also captures significant legitimate trade. Given the targeted nature of the UNSCR sanctions, however, the direct impact is likely to be minor. It is more difficult to assess the financial impact of sanctioning the named Iranian entities and individuals on the UAE, since most are likely to be operating through front companies, and may not be easily identifiable. Iranian retaliation is likely to be limited, both because the UAE will be acting under UN cover rather than bilaterally and because the Iranians need the UAE as a trading partner and investment destination. Dubai and the northern emirates will feel the impact of the sanctions more than will Abu Dhabi. Without Abu Dhabi pressure, and possibly financial compensation, their implementation could be spotty. Given the relatively limited potential impact of the sanctions, however, any necessary compensation is likely to be less than some Emiratis believe. End Summary.

¶2. (C) On December 23, the UN Security Council passed resolution 1737 to prevent Iran's efforts to develop nuclear weapons and their delivery systems. Embassy and Consulate General present the following initial analysis of the potential economic impact of these sanctions on the UAE, one of Iran's major trading partners. (Note: The UAEG does not provide a break out of oil/natural gas exports, so these are not included in the figures below. However, we do not assess oil/natural gas exports to Iran to be significant. End Note.)

Trade Impact

¶3. (U) Iran is a major trading partner for the UAE. According to the UAEG's 2005 trade data, UAE exports and re-exports to Iran in 2005 were \$3.5 billion, about 11% of total non-oil exports. For the same time period, imports from Iran were \$481 million. (Note: IMF figures show a higher figure for 2005 non-hydrocarbon exports of \$63 billion or about 53 percent of total exports, but don't give a breakdown of where the exports go. End Note.)

¶4. (U) Almost all of the UAE's exports to Iran (92 percent)

are re-exports. Almost 95 percent of the exports come from or through Dubai and represent about 14 percent of total Dubai exports. Although exports to Iran from other emirates are much smaller, they represent about 31 percent of Ajman's exports and 32 percent of Fujairah's exports.

15. (SBU) UNSCR 1737 controls are targeted on nuclear technology and on missile technology. Because the control lists use a classification system that is different from the Harmonized System (HS) Codes that the UAE uses to measure trade, it is difficult to assess exactly how much of the trade going through the UAE would be controlled. The HS categories of Machinery/Electrical (84-85) appear to capture most of the UNSCR controlled items, as well as a significant number of non-UNSCR controlled items. Thirty four percent of the UAE's exports to Iran fall into this category, which sets a probable upper bound on the exports that could be affected by the sanctions. Since this figure also captures significant legitimate trade, the amount that is likely to be affected will be much smaller.

16. (SBU) Although exports to Iran will likely decline, the direct financial impact of this decline will be limited, because of the composition of the exports (i.e., re-exports). The UAE economy adds little value to the exports and its earnings come from transit fees, warehouse rentals, and other services.

Targeting Iranian Companies

17. (S/NF) UNSCR 1737 lists 10 organizations and 12 individuals in its Annex for states to freeze assets and report on individual travel. To our knowledge these

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organizations do not have offices in the UAE to close) they operate through front companies that are not immediately apparent and whose connections can be difficult to prove, meaning many states --including the UAE -- will be reluctant to take the required action. As for the individuals listed in the Annex, post does not have details on their financial assets in the UAE. It is likely their financial activity outside Iran is shrouded in much the same way as the entities. Although the Central Bank has said that it monitors the Iranian banks operating in the region, its ability to closely scrutinize disguised assets is likely to be limited. The UAE has already closed more than 20 Iranian front companies) which has not had a significant economic cost for the UAE.

Comment

18. (S/NF) Embassy and Consulate General assess that the direct economic impact of UNSCR 1737 on the UAE is likely to be small, given the targeted nature of the sanctions on Iran. If the UAE aggressively targets the financial assets of the named entities, this could have a greater impact on the financial system. However, given that these entities likely operate through front companies, making it difficult to target them, the economic impact on the UAE is still likely to be limited.

19. (S/NF) There is a potential for Iranian economic retaliation either through putting limits on the considerable Iranian investment in the UAE or through searching out other trade partners. (Note: An Iranian businessman recently claimed that Iranians were switching their investment focus from the UAE to Bulgaria and Kazakstan. End Note) We assess the potential for Iranian retaliation as limited, however, for two main reasons. One: the UAE will be operating under the umbrella/cover of a UNSCR resolution, and is not likely to "get out ahead" of that resolution. Two: Iran continues to depend on the UAE as a trading partner and a destination for investment. UAE Foreign Minister Sheikh Abdullah bin

Zayed Al-Nahyan (AbZ) recently told Ambassador that he did not think that the Iranians would limit investment in the UAE, because they were making money in various real estate, trade, and investment dealings.

¶10. (C) The impact of the sanctions will be -- disproportionately -- felt by Dubai and the northern Emirates. This raises the possibility that implementation of the sanctions is likely to be spotty in those parts of the UAE, absent Abu Dhabi pressure, and possibly compensation. The amount of financial compensation needed, however, is likely to be less than some Emiratis believe, given the relatively limited economic impact of the sanctions on the UAE.

End Comment
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